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AGENDA ITEM 7b

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** Selection of ILAC Consultants for Spring-Fed Pool
- II. PROGRAM:** Inflation-Linked Asset Class (ILAC)
- III. RECOMMENDATION:** Information
- IV. ANALYSIS:**

Background

The CalPERS Inflation-Linked Asset Class Spring-Fed Pool (SFP) of consultants will provide the Inflation-Linked Asset Class (ILAC) program with support in various areas to assist CalPERS in meeting its fiduciary responsibilities. The areas of expertise most commonly used by staff are anticipated to be the following: due diligence of potential investments; strategic advice and research; financial, accounting and tax services; portfolio assistance and debt analysis; assistance in negotiating and evaluating partnership agreements; investment banking related services; and special projects related to the ILAC program. Since the ILAC program was established in January 2008, there is a need to establish a SFP of consultants for the ILAC program. In February 2008, the Investment Committee delegated staff with the authority to establish a "spring-fed" pool of External Resources to meet the Program needs. As such, a focused solicitation was undertaken to obtain proposals from interested consultants to provide services for the following asset classes within the ILAC program: infrastructure, forestland and commodities. On July 31, 2008, a Request for Proposals (RFP) was released to establish the pool of consultants. The final filing date for this solicitation was September 12, 2008. Staff has kept the Investment Committee updated on the status of the RFP through the ILAC updates given at the Investment Committee meetings.

The steps of the competitive solicitation process included the following:

- A) Staff released a RFP with a deadline for filing proposals.
- B) A technical proposal evaluation committee comprised of four ILAC Program staff conducted technical evaluations of the proposals submitted, scored the proposals and created a ranked list of successful proposals;
- C) A fee proposal evaluation committee, comprising the four ILAC Program staff from the technical proposal evaluation committee, conducted fee evaluations of the proposals submitted, scored the fee proposals, and added these scores to the technical proposals to re-rank the list of successful proposals; and,
- D) An interview committee, comprising two of the four ILAC Program staff from the fee proposal evaluation committee, interviewed the consultants, added these scores to the scores from the first two evaluations and finalized the ranking of the list of successful proposals.

Consultant Selection

Fourteen consultant candidates submitted proposals. Due to the large range of services needed in three different asset types and the high quality of all the proposals, all were successful in achieving consensus scoring for consideration and admittance into the pool. Under delegated authority of the SIO – Asset Allocation and in accordance with the consultants indicated area of engagement and experience and staff scoring and ranking, staff has selected the following consultants for the SFP to be awarded contracts in the first quarter of 2009.

<i>Infrastructure</i>		
• Brock Capital Group LLC	• Investors Diversified Realty, LLC	• Pension Consulting Alliance, Inc.
• Capital Innovations, LLC	• KPC Consulting Group, LLC d/b/a LP Capital Advisors	• R.V. Kuhns & Associates, Inc.
• Cliffwater LLC	• Magellan Asset Management Limited	• Wilshire Associates Incorporated
• Courtland Partners, Ltd.	• Meketa Investment Group	
<i>Forestland</i>		
• Cortex Consultants, Inc.	• James W. Sewall Company	• ORG Portfolio Management LLC
<i>Commodities</i>		
• Cliffwater LLC	• R.V. Kuhns & Associates, Inc.	• Wilshire Associates Incorporated

A consultant profile for each of the successful proposals has been prepared by staff and is included in Attachment 1.

All the recommended consultants have expertise in the asset classes for which they were selected as well as experience working with other large institutional organizations. Therefore, staff feels that including the above consulting companies in the SFP would add value to the ILAC Program. Other benefits of having a wide pool of consultants are having a broader range of expertise, and limiting potential conflict of interest situations. Selecting the 14 consultants in this SFP will allow CalPERS staff to have access to a number of highly qualified consultants and to receive competitive proposals from these firms for services related to ILAC consulting.

The recommended consultant firms are subject to satisfactory contract negotiations with awards being finalized within the first quarter of 2009. This SFP is separate from the Board's independent investment consultants. Consultants will be available for potential engagement through the SFP term.

V. STRATEGIC PLAN:

Goal VIII, Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first to pay benefits and second, to minimize and stabilize contributions.

VI. RESULTS/COSTS:

The budget allocation for the ILAC SFP is \$900,000. The consultants selected for this SFP will provide services for infrastructure, forestland and commodities.

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